

KENTUCKY

TEACHERS' RETIREMENT SYSTEM

ACTIVE MEMBER
EDITION



July/August
2009

KTRS Investment Philosophy Continues to Serve the System Well

As news stories have reminded us daily for many months, the global financial system has just experienced its greatest period of stress since the 1930s. The damage to the financial system-and consequently to the real economy-was caused by an unsustainable accumulation of risk in financial practices over several years leading up to the downturn. Though we are confident of the long-term viability of the economy, we are not out of the woods yet.

While returns have been unavoidably negative in the recent economic downturn, the System's portfolio has been exceptionally resilient as a result of KTRS's investment philosophy that focuses

on fundamental value and risk control. KTRS's investment performance ranked in the top 9% for the year ended March 31, 2009 compared to 58 other state-wide pension plans in the nation and in the top 31% over the past three years (Source: Pension Fund Data Exchange).

**KTRS's
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While comparisons with other public funds can provide insights, the only goal of our investment program is to ensure our ability to provide promised benefits to our members. KTRS's investment philosophy is determined by its current and long-term obligations to its members.

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KTRS Investment Philosophy ...*

Members Elect Trustees to KTRS Board

The election for the positions on the KTRS Board of Trustees due to expiring terms for the retired teacher trustee and the active trustee positions was conducted during May 2009. Interim Chief State School Officer Elaine Farris certified the results of the election to the KTRS Board of Trustees.

BARBARA G. STERRETT the incumbent, was re-elected to a four-year term as retired teacher trustee. Ms. Sterrett represented active members on the Board from 1990 until her retirement in 2003. In



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DR. JOSEPH A. (JAY) MORGAN, the incumbent from Murray, was re-elected to a four-year term on the Board as an active teacher trustee. Dr. Morgan currently serves as the Vice Chair for the KTRS Board of Trustees and as Chair for the KTRS



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This philosophy has proven sound even in the most stressful times for the financial markets in decades.

As we focus on the long-term, KTRS continues a multi-year process of diversifying its portfolio that began earlier this decade. Assets in the marketplace that were excessively valued a few years ago are now available at much lower valuations, providing exceptional opportunities to continue this diversification. However, there are challenges to this process. The redirecting of retirement contributions by the Commonwealth that should be deposited into the pension fund (but are instead used to pay for current medical insurance costs) makes the planned diversification less efficient and

more difficult. Securing adequate funding for retiree medical benefits will help maintain a sound actuarial foundation for the System.

The Board of Trustees has moved to broaden the investment expertise available to the System as it moves to continue the ongoing diversification and take advantage of opportunities in the current environment. Ennis Knupp, a nationally recognized investment consulting firm, has been awarded a contract to serve as the System's General Investment Consultant for the coming fiscal year. In addition, two nationally recognized and highly respected investment experts, Mr. Bevis Longstreth and Mr. George Philip, have been appointed to the KTRS Investment Committee.

How Would a Mid-Career Planning Workshop or Pre-Retirement Seminar Benefit Me?

Throughout the year, KTRS offers **Mid-Career Planning Workshops** to teachers, university faculty, school administrators and others. Members who desire to learn about their KTRS retirement account or how the System operates will benefit from attending one of these sessions. Also available are **Pre-Retirement Seminars** for those within one to five years of retirement, who would like to know how to maximize their KTRS pension, learn the retirement process, and get all their questions answered. These workshops and seminars are packed with information that will help each person move smoothly from one phase of life into the next. We should all prepare for a fresh new journey earned by our previous labor. Please visit www.ktrs.ky.gov for ALL workshop & seminar registration.

Mid-Career Planning Workshops

Registration 5:15 P.M.

~ NEW TIME ~

Workshop 5:30 - 7:30 P.M. (Local Time)

October 12, 2009

Lake Cumberland SRP
Jamestown, KY

October 27, 2009

Jenny Wiley SRP
Prestonsburg, KY

December 1, 2009

University Plaza
Bowling Green, KY

Pre-Retirement Seminars

Registration 9:00 A.M.

Seminar

9:15 A.M. – 1:00 P.M. (Local Time)

September 26, 2009

KY Dam Village SRP
Gilbertsville, KY

October 10, 2009

Bluegrass Community
& Technical College
Lexington, KY

November 7, 2009

Southern High School
Louisville, KY

Please visit www.ktrs.ky.gov for ALL workshop & seminar REGISTRATION along with address information. Additional workshops/seminars may be added.

Changes to the KTRS Investment Program

On December 15, 2008, the Board of Trustees of the Kentucky Teachers' Retirement System (KTRS) voted to adopt investment recommendations made by Gov. Steve Beshear's bipartisan Public Pension Working Group. These recommendations originated from a coalition of groups including the Kentucky Education Association, the Kentucky Education Association-Retired, the Kentucky Retired Teachers Association, the Jefferson County Teachers Association, and 3KT (comprised of the Kentucky School Boards Association, the Kentucky Association of School Administrators, and the Kentucky Association of School Superintendents). The Public Pension Working Group was chaired by KTRS Board Member, Treasurer Todd Hollenbach. "The Board wishes to thank Governor Beshear, the education groups, Treasurer Hollenbach, and the Public Pension Working Group for their significant work on formulating these recommendations," said Gary Harbin, executive secretary of KTRS.

Included among the recommendations was one to expand the membership on the investment committee. "The Board, staff, and our outside consultants have been working very hard to implement the recommended changes to the membership on the investment committee. I am very pleased to report that the recommended changes are complete," said Harbin.

Ennis Knupp, the Board's investment consultant, has assisted with implementing the membership changes on the investment committee and with making other "best practices" changes to the investment program. Ennis Knupp also consulted on searching for the two additional experts to serve on the investment committee. After completing a nearly six month process, the Board recently appointed Bevis Longstreth and George Philip to the KTRS investment committee effective July 1, 2009.

Mr. Longstreth currently serves on the Board of Directors of the global investment firm Grantham, Mayo & Van Otterloo, LLC, where he serves as Chairman of the Risk Committee. He is also

currently the Chairman of the Finance Committee of the Rockefeller Family Fund, where he is responsible for investment strategy, manager selection and monitoring. He served as a Commissioner of the Securities and Exchange Commission and on the Board of Governors of the American Stock Exchange. He has previously served on numerous boards and investment committees including: the College Retirement Equities Fund ("CREF" of TIAA-CREF); AMVESCAP (INVESCO); the Pension Finance Committee of The World Bank; and Chairman of the Investment Committee of the Nathan Cummings Foundation. Mr. Longstreth has written numerous articles and three books on business-related subjects and is the author of *Modern Investment Management* and the *Prudent Man Rule*, published by Oxford University Press.

Mr. Philip currently serves as the President of the University of New York at Albany. He also currently acts as an Investment Advisor to New York State Teachers' Retirement System (NYSTRS), which is one of the ten largest public pension funds in the United States. Mr. Philip has service on numerous boards and investment committees such as: the New York Stock Exchange, Advisory Committee; Chair of the Council of Institutional Investors; Director of US Airways Group; Director of First Niagara Financial Group (\$15B Bank Group); and Director of the Real Estate Investment Standards Board. Mr. Philip also worked at the NYSTRS from 1971 to 2007. During his tenure at NYSTRS, he served as the Chief Real Estate Investment Officer (1988 to 1992), Chief Investment Officer (1992 to 2007), and Executive Director (1995 to 2007). Mr. Philip was instrumental in diversification of the NYSTRS's portfolio to include real estate and other alternative investments.

Harbin said "These two experts will add significant value to the investment program because of their extensive backgrounds in finance, risk management, governance, and alternative investments. The Board is certainly looking forward to working with these two nationally recognized and highly respected individuals."

Sterrett continued from page 1 ...

May 2005, she was elected to represent retired members. She served as the Board's vice-chair during fiscal year 2007-2008 and she currently serves as Chair of the Board. She earned a Bachelor's Degree in Mathematics from Edinboro University and holds a Rank I with a Master's Degree and a Specialist Diploma from the University of Pittsburgh. She taught mathematics for 30 years at Lafayette High School in Lexington. As a teacher, she served as president and treasurer of the Fayette County Education Association. In addition to her work with the KTRS Board, Ms. Sterrett substitutes in the Fayette County Public Schools, is active with the Lexington League of Women Voters and is a member of Kentucky Education Association-Retired, Kentucky Retired Teachers Association and Alpha Delta Kappa, an educational sorority.

Ms. Sterrett's current term of office began July 1, 2009 and will end June 30, 2013.

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Legislative & Scholarship Committees. He also serves on the Governance & Audit, Personnel, and Investment Committees of the KTRS Board. Dr. Morgan is a professor at Murray State University where he received his Bachelor's Degree in Agriculture Business and a Master's Degree in Education. He earned his Ph.D. in Agricultural Education from Oklahoma State University. Previously Dr. Morgan was CEO of the Wholesale & Retail Educational College Book Company, taught high school agriculture classes, and studied and traveled extensively abroad. His community service includes Murray City Council member, past board chair of United Way of Calloway County, recipient of the "Outstanding Volunteer of Kentucky" award, past president of the board of Murray-Calloway County Chamber of Commerce, Rotary Club member, 2002 Murray-Calloway County Citizen of the Year, member of KVATA, and a member of the board at Heritage Bank. Dr. Morgan has represented active members on the Board since July 2006.

Dr. Morgan's current term of office began July 1, 2009 and will end June 30, 2013.

KTRS Board of Trustees Chair & Vice Chair Elected

BARBARA G. STERRETT, of Lexington, was re-elected chair of the Board of Trustees for the 2009-2010 fiscal year at the Board of Trustees meeting held June 15, 2009. Mrs. Sterrett represented active members on the Board from 1990 until her retirement in 2003. In May 2005, she was elected to represent retired members. She served as the Board's vice-chair during fiscal year 2007-2008.

DR. JOSEPH A. (JAY) MORGAN, of Murray, was re-elected vice-chair for the 2009-2010 fiscal year at the Board of Trustees meeting held June 15, 2009. Dr. Morgan has represented active members on the Board since July 2006.

Minimum Distribution Requirements

Regardless of whether you are vested with at least five (5) years of service or not, if you are no longer working for a participating KTRS employer, federal tax law requires you to take action soon after you reach age 70½ to withdraw the contributions that have been deposited in your retirement account. If you are vested with at least five (5) years of service, you are required to withdraw your contributions by filing a retirement application to start receiving your retirement allowance. If you are not vested with at least five (5) years of service, you are required to file an application for a refund of your account. Failure to take action to timely withdraw the contributions that have been deposited in your retirement account may result in federal tax penalties.

If you are age 70 ½ or older and no longer contributing to the retirement system, please contact KTRS immediately for the appropriate forms to apply for retirement or a refund to avoid substantial and recurring federal tax penalties. Federal tax law also requires the beneficiary of an active or retired member to begin receiving benefits or take a refund soon after the member's death.

Beneficiaries should contact the retirement office soon after the member's death to begin receiving benefits or take a refund in order to avoid any applicable penalties.

Please Review Your Annual Statement

The Kentucky Teachers' Retirement System annual statements for fiscal year ending June 30, 2009, will be mailed in early October 2009. The accuracy of the information contained in this statement is important to your retirement and serves as the basis for preparing an estimate of your retirement benefits. Your employer furnished the salary and service credit reflected on your statement. To assist members in maintaining accurate retirement accounts, KTRS will perform service credit audits on member accounts that will be eligible to retire in the next two years. You can help by carefully reviewing your statement to assure its accuracy. Please pay particular attention to the total service credit ending balance at June 30, 2009. Members are entitled to receive a full year of service credit if they have no more than five days without pay during a year. If you think your account may have an error, please contact your employer. Your employer will then notify KTRS of errors and/or omissions that need to be corrected.

Timely Reminders of Deadlines for Purchasing 2008/09 Service Credit

Members who had unpaid contract days in the 2008/09 fiscal year should contact KTRS about their eligibility to obtain full service and/or salary credit. The deadline for purchasing this type of credit is December 31, 2009.*

Members granted leaves of absence in 2008/09 should contact KTRS about recovering this credit. The deadline for purchasing unpaid days covered by a leave in 2008/09 is June 30, 2010.

**Appropriate forms can be obtained at www.ktrs.ky.gov or from your employer.*

Members Should Designate a Beneficiary for their KTRS Account

All active and retired members should designate a beneficiary for their KTRS account. Active members need to file beneficiary designations for both the receipt of the KTRS life insurance benefit and for receipt of their account balance. Retired members need to file a beneficiary designation for the KTRS life insurance benefit. Failure to designate a beneficiary can result in much unnecessary difficulty and expense for a member's survivors, including the need to go through the expense of probate and the appointment of an administrator or executor even in those cases where these costs and procedures could otherwise have been avoided. For active members, failure to designate a spouse as beneficiary can result in the loss of valuable spousal survivor benefits. Designation of a beneficiary is by far the best way for you to ensure that your wishes for the distribution of these valuable assets is properly carried out. Please contact the retirement system if you need a beneficiary designation form.

KTRS Retiree Analysis

As of December 31, 2008, KTRS had 3,784 service retirees that were at least 80 years old and more than 40 over 100 years old! **The KTRS Defined Benefit Group Retirement Plan provides retirement security that lasts a lifetime.**

Retiree AGE	
Age 100 years old or more	41
Age 95-99 years old	273
Age 90-94 years old	704
Age 80-89 years old	3,784
TOTAL RETIREES	4,802

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